GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE
STATE AND LOCAL STANDARDIZATION WORKING GROUP MINUTES
Tuesday, August 7, 2012
1:30 PM
1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on August 7, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

Members Present	
Michael Hunter (Chair)	Linda Stanfield
John Olsen	Keely Hitt
Miguel Teposte	Vince Perez
Tom Belshe	Senator John McComish
Steve Barela	Representative Rick Gray
Lynne Herndon	

Members Absent
Kevin McCarthy

Staff Present
Lorna Romero, Governor's Office

1. **Call to Order**
   Michael Hunter called the meeting to order at 1:34 p.m.

2. **Welcome & Introduction of Working Group Chair**
   Mr. Hunter explained the format of working group meetings. The groups will have a focused conversation on certain topics that will include input from the public. Mr. Hunter introduced Pat Irvine as the working group chairman for the State and Local Standardization Working Group.

3. **Overview and Scope of Working Group**
   Mr. Irvine explained that this working group will meet on Tuesdays for the next few months. He emphasized he is looking forward to having input from stakeholders and is hopeful to find new areas for improvement in the tax code.

   a) **Working Group Discussion and Public Comment**
   Mr. Irvine asked the Task Force what goals they wished to accomplish between now and November.

   Representative Gray expressed interest in exploring the territory of areas that can be reformed.

Tom Belshe answered that in order to define the scope the group needs to understand what the current differences are before moving forward. He emphasized that the group needs to know the extent of the problems.

Senator McComish suggested a possible outcome could be finding the low hanging fruit and then identifying future areas of reform to create a plan. He suggested revenue sharing may fall into that category.

Steve Barela answered that this isn't the beginning of simplification and that taxpayers have been working toward this for a while with many successes.

Linda Stanfield responded that the group needs to hear from businesses, both large and small, about what is affecting them.

Mr. Irvine interjected that it is important to understand what areas of the law are more problematic than others

Mr. Barela answered that he thinks the working groups on definitions and online retail are closely tied and that the group needs to accomplish a lot if it wants to tax e-commerce.

Michael Preston Green from Brownstein, Hyatt, Farber and Schreck commented that he would like to hear more optimism from the group. He continued that this is a prime opportunity to get a lot done and that the group should do it with excitement and optimism.

4. **Differences Between State and Cities Definitions and Tax Treatment**
Mr. Irvine introduced Mr. Belshe and allowed him to begin the discussion on the agenda topic.

Mr. Belshe gave an overview of the Model City Tax Code and of Lee Grafstrom's presentation from the July 23rd TPT Task Force meeting. Mr. Belshe explored the Model City Tax Code website. He reviewed the following:
- The Model City Tax Code attempted to set up options for cities for commonly taxed items.
- The blue sections contain all of the options for cities and towns.
- There is a matrix of all cities noting the options they have selected.
- There is a section for individual city profiles that have unique language.
- Information includes history, sales tax percentage etc.

Mr. Belshe explained that he is looking to remove areas where cities have unique language.

Mr. Hunter looked for clarification that these unique options were not necessarily in regards to retail.

Mr. Belshe responded that there are relatively few differences in the retail base.

Mr. Belshe continued that the Model City Tax Code can be updated through green sheets and blue options. He explained there are program and non-program cities and that program cities receive collection and auditing from the Department of Revenue. In order to participate in the program, cities have to adopt specific language in order to have tax collected by the Department, found in

Appendix 1. Appendix 4 allows cities a supplemental auditing function.

a) Working Group Discussion and Public Comment
Mr. Belshe explained that many of these options are not options to tax but options to exempt. He continued that many of them have been found to be obsolete.

Mr. Irvine asked why there are separate regulations.

Mr. Grafstrom explained that they are part of the code that needs to be adopted and that there is no real reason for the separation.

Mr. Belshe summarized the history of the Model City Tax Code.

Mr. Irvine asked what this code affects and who it applies to, using a tanning bed example and licensing for use.

Mr. Hunter explained that the tanning bed issue is where someone has control over the machinery. The state and cities have different definitions of use. He asked if cities have differences in their definitions.

Mr. Grafstrom answered that there are not going to be differences between licensing for use definitions among cities. He continued that there are not additional options for that.

Mr. Belshe explained that differences include city based nexus, jet fuel, manufactured buildings, hotel tax, broker category etc.

Mr. Irvine asked for some examples outside of retail.

Mr. Grafstrom explained that large company sales are predominately procured by salesmen outside the state but maintain an inventory of goods in Arizona. Since there is a physical connection, there is a nexus which triggers the state sales tax. He continued that the cities where the product is shipped to do not have nexus, only the cities from where they ship.

Mr. Irvine asked about use tax.

Mr. Grafstrom answered that there are not use taxes everywhere, but there is an exemption in the Model City Tax Code for less than $1,000.

Mr. Irvine asked about contracting.

Mr. Grafstrom responded that contracting is taxed, where the construction is located and not where the goods are purchased. He explained how retail contracting works and that it is difficult to comply with the code. If a plumber spends two hours at a house and makes minor fixes it is considered contracting cited at the job site. If the plumber replaces a washer then it is a retail based transaction based on the location of the plumbing office. Mr. Grafstrom explained it is a state and city tax code issue.

Mr. Hunter interjected that this is a particularly egregious problem and that there is a high level of complexity in this issue.

Christie Comanita explained that the Department of Revenue does not treat the repair activity as retail if it is for improvement and that it is subject to tax as contracting at the job site.

Mr. Hunter explained that this is rudimentary example of why the Governor called this task force together.

Ms. Stanfield commented that it is interesting that the state looks at contracting differently than cities do. She continued that it needs to be easier for businesses because it is difficult to comply.

Craig McPike from Snell and Wilmer interjected that the perfect venue to discuss this further will be the Contracting Working Group meeting in two weeks at the same time and location.

Mr. Grafstrom discussed the broker category and that the use of a broker causes a transaction to be taxable. He continued that the principal or broker can be held 100% liable. In real property rental through a property manager, the property management company will make the transaction taxable. It is the same thing for online brokers such as Expedia.

Michael Preston Green from Brownstein, Hyatt, Farber and Shreck asked if brokers are also taxed at the state level.

Ms. Comanita answered that the state does not have a broker tax.

Representative Gray asked what the difference in cost would be if things were to be made the same regarding prime contracting.

Mr. Belshe responded that it is difficult to get that information for all cities and towns. He is hoping to have a better idea of what the dollar impact will be in the near future.

Mr. Irvine asked what the main complaint is from businesses.

Mr. Belshe answered that some don't understand why there is a difference between the state and cities.

Ms. Stanfield asked if businesses have trouble calculating liability.

Mr. Belshe answered yes and explained that the list he presented is not exclusive, but the topics the League hears about the most.

The Working Group took a 20 minute break.

5. **Licensing Differences Between State and Cities**
   Mr. Irvine called the group back to order at 3:20 p.m.

   Vince Perez commented that the group needs to look at sourcing. This deals with contracting and

where the work is being done, online retail and where the product is being delivered and for regular retail sales and the site of the store. Mr. Perez expressed that the group may have different definitions of how sourcing plays out.

Tom Johnson gave a presentation regarding the Department of Revenue's state and program city licensing fees. He discussed the possibility for a standard application for licensing, as cities are currently collecting the same data.

a) **Working Group Discussion and Public Comment**
Mr. Grafstrom asked if city fees collected by the Department of Revenue go to the cities.

Elaine Smith affirmed this and said that the fees do not go to the Department of Revenue.

John Olsen expressed this is not a large source of revenue, as they are one time fees.

Mr. Johnson commented that the goal is full online licensing and that currently only 10-15% file online. He explained there are many opportunities for errors during manual administration and review and that this could be fixed with more online filers.

Senator McComish addressed the twelve dollar fee and asked how long it has been in effect, if it covers expenses and how flexible it is.

Ms. Comanita answered that it has been in effect since the 1980's, it does not cover expenses and there is no flexibility to change the dollar amount, since it is in statute.

Mr. Hunter asked what the challenge is for uniformity in licensing.

Mr. Grafstrom answered that on the non-program city level annual license fees are used to try and cover costs. This is done annually to keep an up to date list of taxpayers. He continued that license fees pay for ongoing operations.

Craig McPike from Snell and Wilmer asked about when a change in ownership requires a new license. He commented that currently there is not a specific definition of ownership and it is interpreted differently.

Mr. Grafstrom answered that the legal entity should be the clarification.

Michael Preston Green from Brownstein, Hyatt, Farber and Shreck asked why the group is not looking for uniformity between program and non-program cities and commented that the same rules should exist across the board.

Mr. Irvine responded that everything is on the table and that the task force can decide to go in that direction.

Mr. Hunter commented that there would be a relatively smooth transition to get non-program cities on the same page, but more time would need to be spent to look at the reason for the fee on the state side and the kinds of information the state is looking for. He continued that the philosophy between

the two entities is important when uniformity is discussed and that that can be done at a future meeting.

Ms. Stanfield stated she would like to see a uniform application form.

Mr. Belshe commented that discussions are being had about making the sales tax portal into a licensing portal.

Ken Quartermain from Public Policy Partners responded that the idea seemed like a no brainer.

Mr. Belshe continued that the procurement process has not yet begun, but businesses are able to provide this technology. He also noted that there is a public process for procurement to take place.

6. **Future Working Group Meetings Regarding State and Local Standardization**
   Mr. Irvine stated that the portal will be discussed in future meetings.

   Representative Gray commented that the portal was the first step, licensing is another and then the inclusion of program cities.

7. **Adjournment**
   Mr. Hunter adjourned the meeting at 4:11 p.m.